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SUBJECT: EL SALVADOR PRIORITIES FOR ENVIRONMENT PROJECTS
THAT SUPPORT CAFTA-DR IMPLEMENTATION

REF: SECSTATE 26123

¶1. Summary: As requested in reftel, this cable contains Post priorities for CAFTA-DR environment activities for FY ¶2006. The proposals described here build upon a consultative process that began almost six months ago and reflect a consensus view on El Salvador's key environment needs and related regional priorities. A separate cable contains post's summary of CAFTA-DR labor needs. See concluding comment at end of this telegram. End Summary.

¶2. Nearly six months ago, Post began a consultative process to identify key labor and environment trade capacity needs in El Salvador for FY 2006 and beyond. This process, consisting of consultations with Government colleagues, regional integration institutions, and the private sector, identified several priority needs. To develop the project proposals requested in reftel, Post also relied heavily on the priorities in the CAFTA-DR Environment Cooperation Agreement.

¶3. The proposals presented here represent a consensus view from State and USAID bilateral and regional officers of key USG projects that will help El Salvador and other countries in the region meet the requirements of CAFTA-DR environment provisions. Post recognizes that El Salvador is, in many ways, in a unique position vis--vis other CAFTA-DR countries in its efforts to implement CAFTA-DR and its relationship with the United States. El Salvador led the fight within the region for ratification by Central American signatories. El Salvador was the first country for which the treaty entered into force with the U.S. (on March 1, 2006). Also, the USG Mission in El Salvador has a strong regional presence and serves as the base for regional offices of USG agencies such as Department of Commerce and USAID. As a result, the proposals presented here include both those that focus exclusively on El Salvador as well as some that recognize the benefits of working regionally to address environment issues of particular concern to El Salvador and its neighbors.

¶4. It is more efficient, from a USG budget perspective to offer some CAFTA-DR assistance from a regional platform. More importantly, there is a need to harmonize environmental regulations, procedures and information systems at a regional level to make sure that all countries adhere to the same minimum standards and compete on a level playing field.

15. TITLE: Creating Income Incentives to Support Sustainable Management and Conservation in Critical Salvadoran Protected Areas

16. PURPOSE: The Activity will develop alternative income sources and other incentives to manage and conserve biodiversity and natural resources within selected critical areas of El Salvador.

17. DESCRIPTION AND JUSTIFICATION. Population pressures, coupled with uncontrolled and unsustainable economic activity, are degrading the natural resource base of El Salvador and leading to the irreplaceable loss of plant and animal species. Fuel wood is the primary source of cooking energy for approximately 70% of the rural population and current requirements exceed sustainable yield levels for present forest cover. Deforestation, the destructive use of pesticides, agricultural practices that degrade the soil base and domestic pollution are carried out with little regard for downstream inhabitants or the natural habitat that supports biodiversity. These conditions also threaten the economic potential of hundreds of thousands of local residents in one of the most biodiversity rich areas of the country, Ahuachapan and Sonsonate (the proposed activity Area). More than a third of El Salvador's protected areas are within the proposed activity area. Outside the protected areas, natural forests are often fragmented "islands." Conserving biodiversity will demand efforts to link together these protected areas and fragmented forests with biological corridors and buffer zones.

18. In this activity, USAID El Salvador will promote sustainable management within protected areas, biological corridors, and buffer zones by using market access and increased income as incentives for rural residents to carry out long term conservation practices. Such incentives include certified products, alternative income sources such as tourism, and non-traditional income opportunities that are less environmentally destructive. Local capacity to carry out integrated natural resource and biodiversity conservation will be developed and mechanisms for user to pay for environmental service will be introduced.

19. Expected Results:

-- Increase in annual income of \$1.5 million for local residents through increased market access, alternative employment, crop diversification, and non-traditional income opportunities.

-- Generation of \$50,000 per year for payment for environmental conservation of critical protected areas.

-- 75% of residents living in protected areas, buffer zones, and biological corridors will adopt environmentally sustainable farming methods or benefit from non-traditional income-earning opportunities.

10. Specific Activities:

-- Green Certification. Green certification mechanisms will be used to promote certified product market access and improve agricultural practices that support conservation. Coffee certification will be the principal focus due to the conservation importance of shade forests and the economic importance of coffee. In addition to providing a significant amount of firewood as coffee plants are pruned to manage the shade, tree cover on coffee farms protects some of the better but erosion-prone volcanic soils and improves watershed stability.

-- Non-Traditional Income Alternatives. By introducing alternatives to traditional farming, USAID will help reduce the current pattern destruction of forests, soil, and biodiversity habitat. Eco-tourism mechanisms will be

developed to provide jobs, training, and increasing environmental awareness amongst populations residing within protected areas, buffer zones, and biological corridors.

-- Financial Mechanisms for Conservation. Financial mechanisms for conservation will be developed using tariffs and user fees to pay for local implementation of conservation activities. The Ministry of Agriculture is currently carrying out a rural modernization program and will be a key partner for generating financial resources for conservation efforts. Other options will also be explored to support the financing of environmental services. This activity will develop and support local capacity and awareness of the need to pay for and carry out conservation interventions.

¶11. US POLICY OBJECTIVES. This activity specifically addresses the ECA work plan section 2, "Development and promotion of incentives and other voluntary and flexible mechanisms to encourage environmental protection, including the development of market initiatives and economic incentives for environmental management needs, and includes activities to improve implementation and improved compliance with multilateral environmental agreements." It will also support the GOES Ministry of Environment and Ministry of Agriculture goals of sustainable conservation of protected areas and rural modernization.

¶12. NEW OR PREVIOUS WORK. This activity will build on USAID's previous integrated water resource management Activity (AGUA) that successfully linked the demand for clean water to the conservation of the Activity's three major watersheds. It will also support the new GOES water law expected to be presented later this year, which contains provisions for financing environmental services through water use tariffs.

¶13. ESTIMATED COST. \$1.1 million for FY 2006 (Biodiversity DA)

¶14. LOCAL BUY-IN. A consultative process was carried out with the Government of El Salvador including meetings with the Ministries of Environment and Agriculture, the National Water Agency, the Social Investment Fund for Rural Development, and international and local organizations working in the activity area. The government has specifically requested assistance in conservation and management of biodiversity and natural resources. USAID will work with the Ministry of the Environment, the Ministry of Agriculture, and the Social Investment Fund for Local Development as well as potential partners with other international organizations, the Canadian Development Agency (ACDI), the World Conservation Union (IUCN), and the Spanish Development Agency (SECI).

¶15. PUBLIC DIPLOMACY. The goals of the Central American Free Trade Agreement (CAFTA-DR) include support of environmental conservation along with increased economic growth and trade. This activity responds by providing the opportunities for rural resident to increase their incomes, while developing sound practices for the long term conservation of biodiversity and natural resources in some of the most critical conservation areas of El Salvador.

¶16. TITLE: Environmental Law Compliance and Enforcement

¶17. PURPOSE: This activity will strengthen the ability of El Salvador, Costa Rica, Guatemala, Honduras, Nicaragua and the Dominican Republic to enforce existing environmental legislation. This was the number one priority identified by the parties during the negotiation of the Cooperative Work Program.

¶18. DESCRIPTION AND JUSTIFICATION: Environmental law enforcement within the CAFTA-DR countries is weak. Existing

institutions within the countries have limited human and financial resources, and many lack the necessary authority to enforce laws. Existing legal frameworks often lack the implementing regulations and procedures, hindering implementation. In addition, current environmental laws throughout the region need to be harmonized to reduce trade barriers brought about by differing standards and systems. While the challenge of meeting the obligations of CAFTA-DR and other agreements falls primarily on the national governments of each country, a regional approach is essential to harmonize implementation across borders. USAID will work with EPA and relevant government ministries by using the CCAD regional environment platform. This approach will build continuity through administration changes; build on positive experiences in some countries; and offer economies of scale as similar themes can be handled by the same team of experts.

19. Expected Results:

-- At least one environmental regulation or administrative procedure developed per country each year.

-- At least 50 government officials/trainers trained in each country on how to use relevant environmental management principles and tools, including the use of regulatory and administrative incentives, as well as voluntary measures.

-- Each government has completed an internal assessment and plan on how they can more efficiently use the resources they have for environmental management.

20. Specific Activities:

-- Eliminate law enforcement gaps. Help Governments develop the needed legislation to fill existing legal gaps in environmental legislation. Work will focus on priority sectors as defined by the trade Ministries in each country.

-- Strengthen the capacity of authorities to apply existing environmental protection procedures. Authorities charged with environmental protection, natural resource protection, and pollution control and prevention face capacity problems. USAID will strengthen the countries in the region to

identify and effectively prosecute environmental crimes using each country's environmental legislation.

-- Define environmental law enforcement process. USAID will work with judicial authorities and environmental agencies to develop an entire enforcement process, from investigation and gathering of evidence, to building a case, to determining how to prosecute a case and presenting that case and evidence effectively to a judicial body. This training will focus on the importance of working with other national enforcement entities to build a successful case.

-- Train key staff in environment management tools. USAID will train authorities in relevant environmental management principles and tools, including the use of regulatory and administrative incentives. Develop a strategy to create or use financial/economic incentives to contribute to environmental protection in productive sectors.

-- Provide technical assistance to governments to assist them internalize management costs in national and local municipal budgets. National Governments need to internalize the costs of environmental law enforcement. Adequate operating budgets are necessary so that Environment Ministries and other entities have the means to carry out inspections (staff and operating expenses).

21. US POLICY OBJECTIVES. As signatories to CAFTA-DR, participating countries are required to improve and effectively enforce their existing environmental laws. Article 2 of the Environment Chapter under CAFTA-DR establishes that a party "shall not fail to effectively enforce its environmental laws, through a sustained or

recurring course of action or inaction, in a manner affecting trade between the Parties, after the date of entry into force of this Agreement." The ECA work plan identifies environmental law enforcement as a priority under section 1.1 "Strengthening Environmental Law Compliance and Enforcement Systems: Support the strengthening of national systems for effective enforcement of Parties' environmental legislation, including administrative and judicial procedures." It is a key USG policy goal that this commitment be met.

¶22. NEW/PREVIOUS WORK. USAID has built a strong foundation for policy work throughout the region, working in close collaboration with bilateral and regional organizations including CCAD, local and international NGO's, USG agencies (DOI, EPA, USDA, DOI, NOAA, DOC, NASA) and other organizations. Thanks to USAID's early work with EPA and CCAD, a framework document to develop effective environmental laws and regulations was developed and served as the base for creating most of the Environment Ministries in the region. CCAD and EPA collaborated to develop an environmental law textbook and developed a regional law network. Model legislative frameworks and regulations have been developed on several environmental topics. The experience these actors have gained working in the region will allow USAID to quickly target assistance to fill legislative gaps and address law enforcement priorities in each country. FY2005 funds will be used to develop a baseline needs assessment.

¶23. ESTIMATED COST. \$ 2.75 million in FY 2006 ESF (\$1.25 million for technical assistance provided by USAID and EPA and \$250,000 per country in to address country-specific constraints). A similar investment should be considered for FY 2007.

¶24. LOCAL BUY IN. Local authorities identified "Strengthening each Party's environmental management systems, including strengthening institutional and legal frameworks" as first priority in the Cooperative Work Program. The Cooperative Work Program was formulated through interagency coordination among the Ministries of Environment and Trade of each of the countries in the region and based upon joint and consensual decisions. On the ground activities will be developed regionally or nationally, depending on local capacity.

¶25. PUBLIC DIPLOMACY. This project would provide a venue to increase the visibility of USG efforts to

conserve/maintain the environment in Central America and the Dominican Republic.

¶26. TITLE: Improve Private Sector Compliance with Environmental Legislation

¶27. PURPOSE: This activity will improve the private sector's environmental performance and competitiveness by providing flexible incentives for them to adopt clean production technologies in their production processes. USAID will spearhead a public-private partnerships that leverage private sector resources to achieve voluntary compliance with national environmental laws.

¶28. DESCRIPTION AND JUSTIFICATION: Contamination from industry poses a serious risk to the region's ability to comply with CAFTA-DR. The private sector plays an influential role in determining whether governments develop and implement legislation that addresses environmental hazards. The implementation of voluntary mechanisms to enhance environmental performance will bring together the private sector and Government as partners to reduce contamination. This program will create public private partnerships that will encourage voluntary compliance with

environmental legislation. It will enlist the private sector in making investments that both improving environmental performance yet also have a direct impact on firm competitiveness.

¶29. Expected Results:

- Net reduction in energy consumption and expenditures.
- Net reduction in wastewater generation from production processes and improved solid waste management through the more efficient use of inputs.
- Public employees and private sector businesses more knowledgeable about best practices that will improve environmental performance.
- Net savings in production costs due to more efficient processes.

¶30. Specific Activities:

- Develop public-private partnerships. USAID will develop public-private partnerships to facilitate the transfer and adoption of cleaner production technologies. USAID will promote voluntary and flexible mechanisms to encourage public/private partnerships for environmental protection, including the development of market incentives and economic incentives for environmental management.
- Increase access to clean production financing. One of the biggest limitations businesses face is the lack of capital available in the region to make clean production improvements. The clean production Development Credit Authority establishes a non-traditional line of credit for private sector companies in the region interested in making clean production improvements. The Development Credit Authority reduces the risk banks face by providing partial loan guarantees. USAID proposes to increase the available credit under the Development Credit Authority and expand coverage to include the Dominican Republic and Guatemala.
- Promote clean production best practices. USAID will promote clean production schemes in productive processes, applying best practices to improve efficiency in the use of raw materials and inputs. USAID will promote incentives by creating a program to recognize private sector success private sector's performance through national environmental innovation awards this year in cooperation with other donors

¶31. US POLICY OBJECTIVES. The Governments in the region recognize that incentives and other flexible and voluntary mechanisms can contribute to the achievement and maintenance of environmental protection. The Cooperative Work Program

stresses under Article 1.1.8 which stresses the need to strengthen the private sector's ability to comply with environmental legislation. US policy interests are best served by a cooperative effort between the private sector and government.

¶32. NEW/PREVIOUS WORK. USAID has already established a regional clean production Development Credit Authority (scheduled to end in 2010) and funds a clean production expert at CCAD that is working with the Clean Production Centers in each country (many of them funded by USAID bilateral programs) to encourage private sector businesses to make clean production improvements. The clean production Development Credit authority provides a partial loan guarantee to banks to encourage loans in clean production. USAID El Salvador recently started a clean production activity with the World Environment Center, to promote clean production in El Salvador. This proposal activity will complement efforts and provide funding to disseminate best practices and develop public private partnerships so that government authorities, clean production centers, banks and the private sector work in harmony to promote voluntary compliance with existing environmental laws.

¶33. ESTIMATED COST. \$ 1,750,000 in DA Energy funding and/or ESF for 2006. A similar amount will be needed for FY 2007. USAID is already investing \$600,000 in clean production activities in El Salvador in FY 2005. USAID will also already spending \$100,000 in FY 2005 to fund a clean production expert at CCAD to work closely with banks and clean production centers to encourage the private sector to apply for loans.

¶34. LOCAL BUY-IN. Chapter 17 of CAFTA-DR (Article 17.4) establishes the need to establish flexible voluntary mechanisms to improve environmental performance and the need for environmental cooperation to facilitate the development and transfer of appropriate technologies. Demand for clean production technologies is increasing throughout the region because energy costs make them uncompetitive in global markets. We expect to leverage at least \$1 million from the private sector through a public private partnership.

¶35. PUBLIC DIPLOMACY. This activity provides public visibility through the Environmental Innovation Prize for Clean Production. As Environment Ministries have enthusiastically embraced clean production as a way of addressing the twin goals of reducing pollution and increased competitiveness, USG public diplomacy efforts can highlight these "win-win" solutions.

¶36. TITLE: Enhancing Public Participation in CAFTA-DR Environmental Compliance

¶37. PURPOSE: This activity will help Costa Rica, Dominican Republic, El Salvador, Nicaragua and Honduras comply with CAFTA-DR provisions on increased public participation in environmental matters.

¶38. DESCRIPTION AND JUSTIFICATION. Historically, the CAFTA-DR countries have had limited experience in encouraging public participation in environmental matters. Furthermore, the capacity to effectively manage and respond to citizen complaints regarding alleged environmental law violations varies significantly between countries. Yet, CAFTA-DR establishes a number of requirements for public participation and communication. Under the CAFTA-DR Environment Chapter, the countries must receive public complaints and make them available to the public. Signatory countries are required to develop systems to investigate alleged violations of its environmental laws and to establish a national consultative or advisory committee. This activity will help the Dominican Republic, Costa Rica and other Central American nations comply with these provisions.

¶39. Expected Results:

-- Build national capacity to respond to citizen complaints.

-- Create a designated environmental information center within each Ministry of Environment that will provide public access to information.

¶40. Specific Activities:

-- Establish a functioning Trade and Environment Office in each country to manage environmental claims. The CAFTA-DR agreements require that signatory countries establish Trade and Environment Offices once the treaty enters into force. To help governments meet this requirement, USAID will provide assistance to develop administrative procedures and capacity to respond to communications and complaints received either directly under Chapter 17 or through the

SIECA Citizen Submissions Unit. USAID will develop and strengthen existing systems for environmental claims used by civil society to help reduce the response time for responding to and investigating citizen complaints. USAID will also help establish points of contacts in other Ministries to handle and follow through on complaints. USAID will purchase necessary computer equipment, software and web based communications to manage and track environmental complaints.

-- Enhance environmental information available to the public. Most countries do not have a resource center where the public can easily access information, severely limiting the ability of the public to initiate a complaint or raise issues of concern. In order to support each country's citizen submission process and their newly established trade and environment offices, USAID will help develop an environmental information center in each Environment Ministry. The purpose of these information centers will be to provide and distribute information about CAFTA-DR to the general public and providing a one stop shop on laws, regulations, procedures and other information companies and private citizens need in order to comply with each countries environmental legislation when setting up a business. The centers will provide the countries with the ability to disseminate environmental information, including information on environmental impact assessments and the procedures required to obtain an environmental permit. The countries would be obligated to provide the staffing for the information center. USAID will provide some of the necessary infrastructure (computers, office equipment) and funding for informational materials and public campaigns. USAID will also provide training and technical assistance to government officials to improve communication and outreach through the development of websites, and other media.

¶41. US POLICY OBJECTIVES: This component will assist the Parties in meeting the public consultation and participation obligations set out in the CAFTA-DR. This activity will support the creation or strengthening of entities in the region, responsible for addressing the roles established in articles 17.5 and 17.6 of the CAFTA-DR and in the ECA. The national units established (for citizens submissions and providing environmental information and information on CAFTA-DR) established through this regional approach, will provide information about Chapter 17 under CAFTA-DR and the ECA in a harmonized and consistent manner. Specifically this activity will address Cooperative Work Program articles:

-- Strengthen technology and installed capacity in connection with the training of personnel in the offices designated as Points of Contact by the countries of the region.

-- Strengthen the ability of the Parties; response mechanisms to public communications with the Ministries of Environment and Trade or their equivalent.

-- Promote training and information sharing activities as well as develop and disseminate materials to promote public awareness of the environmental provisions of the DR-CAFTA-DR and ECA.

-- Strengthen the management of, and access by the public to environmental information in the region.

¶42. NEW/PREVIOUS WORK: EPA has received funding to design an information system for public communications and establish a monitoring system. Matching funds are needed to cover local costs such as the purchase of equipment, replicate materials, coordinate efforts regionally and dedicate staff to the effort. The national information centers proposed here will feed into the Regional Environmental Information System known as SIAM which was set up with support from the World Bank and USAID through NASA. USAID/El Salvador provided support to the El Salvador Environment Ministry to establish such an information center

in 2004 which can be used to quickly jump start the process. USAID/El Salvador also developed environmental information materials which can be adapted for use in other countries. The 2004 ESF funds designated to address these issues are not enough to adequately address the needs of each Ministry. USAID's regional program will take advantage of existing efforts (such as the CAFTA-DR environmental manual and the information center established with funding from USAID in El Salvador) to reduce overall costs that would be incurred if this effort were undertaken individually in each country.

¶43. ESTIMATED COST: \$660,000 of FY 2006 ESF (\$110,000 per country). Each CAFTA-DR country Environment Ministry will be asked to submit a proposal on how they would like to utilize the allotted funding to address their priority needs in establishing information/citizen submission units. Each ministry will be required to provide information on counterpart contribution they will provide for the project and how these centers will become sustainable.

¶44. LOCAL BUY-IN: The proposal was discussed conceptually with El Salvador and Nicaragua key government officials in January. With CAFTA-DR now in force, the need to establish the offices proposed here is urgent.

¶45. PUBLIC DIPLOMACY: Inaugurating information centers and contact point offices in each country will provide a tangible means for the US and participating countries to show that positive steps are being taken to address public participation needs established by CAFTA-DR.

¶46. TITLE: Expand Countries' Compliance with Multilateral Environmental Agreements (Multilateral Environment Agreements)

¶47. PURPOSE: To help CAFTA-DR countries meet their obligations under the following critical Multilateral Environment Agreements: CITES, UNFCC and Montreal Protocol.

¶48. DESCRIPTION AND JUSTIFICATION: Effectiveness at complying with Multilateral Environment Agreements (MEAs) is low due to limited resources and lack of trained personnel. One of the major risks posed by the establishment of common borders under CAFTA-DR is regulation of the transport of endangered species and hazardous chemicals. This activity will ensure that all countries have the tools and systems in place so that they can meet their obligations under the following multilateral agreements: CITES, UNFCC, and the Montreal Protocol. A regional approach provides a more consistent platform to ensure Ministries do not lose direction when Governments change.

¶49. Expected Results:

-- Effective enforcement mechanisms of at least three key international environmental agreements will be established and working.

-- Customs officers will better understand their role in enforcing environmental laws, including international agreements and domestic implementing legislation. By the end of the strategy period at least six customs officer trainers will have developed the skills to provide training to their fellow officers in each country on these subjects.

-- The CAFTA-DR countries will improve their performance in

meeting CITES obligations. Harmonized procedures and regulations for implementing CITES will be in place. Scientific and Management Authorities will have sufficient capacity to document population status to meet CITES obligations. The police, customs officers, and general public will have basic awareness and knowledge of CITES. Updated regional lists of endangered flora and fauna will be available.

150. Specific Activities:

-- Regional Mechanisms for Effective Enforcement of MEAs. MEA implementation is hindered by missing procedures. A set of procedural road maps will be developed and tailored to meet each country's specific legislative conditions. USAID will help strengthen the registration and procedures for the sound management and transboundary movement of pesticides, hazardous materials, substances and wastes, including procedures for Prior Informed Consent. Regional norms will be developed in some specific instances (such as chemical importation and use), where they are lacking. Informational materials will be prepared regarding waste, toxic chemicals, endangered species and biodiversity, and ozone-depleting substances. Linkages at the national level between key enforcement stakeholders, customs officers, customs training institutes, national focal points for MEAs, judges, and prosecutors will be promoted and strengthened.

-- Build capacity for effective enforcement. Law enforcement officers (customs, police, judges) lack the tools and knowledge to effectively enforce existing legislation related to MEAs. Training materials will be customized for the CAFTA-DR countries, and customs officials will be trained in the recognition of species listed on CITES Appendices. Harmonized procedures and regulations for implementing CITES will be developed. Regional lists of endangered flora and fauna will be updated and published. Guidelines for the population estimates necessary for proper compliance will be developed. Police, customs officers, and the general public will be educated and provided with training through multi-media outreach campaigns.

151. US POLICY OBJECTIVES: As signatories to CAFTA-DR, participating countries are required to implement and improve compliance with multilateral agreements to which they are all party. This project will address three actions identified in the ECA work plan as follows:

-- Strengthen capacity for national implementation of CITES, RAMSAR, the Montreal Protocol and other relevant MEAs to which we are all Party, including by disseminating procedures for their implementation and undertaking public awareness campaigns.

-- Provide training and capacity building to Scientific and Management Authorities, Customs authorities and national police to enhance implementation of CITES.

-- Develop programs and projects to provide economic instruments to protect wildlife at the regional and national levels.

-- Strengthen the enforcement of restrictions on trade in ozone depleting substances under the Montreal Protocol and the development of innovative mechanism for encouraging cross boundary engagement in reducing the use of such substances.

152. NEW/PREVIOUS WORK: USAID has built a strong foundation for policy work throughout the region, working in close collaboration with the Central American Governments through CCAD. USAID has worked with CCAD and EPA to promote knowledge of relevant MEAs and harmonization of regulations and procedures. In collaboration with EPA and NAS, USAID is helping countries meet United Nations Framework Convention on Climate Change (UNFCCC) requirements to produce a report on their greenhouse gas emissions through the development of tools and improvements in data quality. Activities planned here complement the UNDP GEF activities on climate change, the World Bank efforts on payments for environmental services, and the Spanish Cooperation's biodiversity conservation work.

153. ESTIMATED COST: \$1.15 million of FY 2006 ESF and DA (with \$150,000 for each CAFTA-DR country and \$250,000 for

regional core costs). USAID requests DA Biodiversity and NRM funding in order to include Costa Rica. Matching funds will be provided from national governments through CCAD. This activity will work in close coordination with other USG agencies through USAID's existing interagency agreements to provide specific training and technical assistance that is not available in the region. Other project partners and implementers may include Environment and Trade Ministries, Agriculture, and Customs staff, and local and international NGOs.

¶54. LOCAL BUY-IN: As the activity is designed to meet national government requests for assistance through CCAD. Proposals were shared with CCAD as the representative agency for all the Ministers of Environment for the CAFTA-DR countries.

¶55. PUBLIC DIPLOMACY: A public diplomacy strategy is already incorporated through planned public outreach campaigns. Opportunities for public diplomacy would come from key workshops and materials published and disseminated.

¶56. TITLE: Creating incentives for improved management of critical biodiversity-rich watersheds

¶57. PURPOSE: This activity will enhance market incentives for improved natural resource management in Costa Rica, Guatemala, Honduras, and Nicaragua and build the basis for sustainable financing in three watersheds of high biodiversity importance (utilizing DA biodiversity and agriculture funds).

¶58. DESCRIPTION AND JUSTIFICATION: Central America has exceptional biodiversity that needs to be conserved for both its current economic value and potential future value. The future growth of the region depends on the health of its natural resource base. For example, sustainable flows of income from tourism and the availability of clean water supplies are both directly related to environmental health. However, there are insufficient financial resources to fully fund and implement protected area and watershed management plans. Governments rarely allocate significant funds for the environment sector during the budgetary process, and current policies rarely allow for significant generation and retention of fees for management at the local level. And there are few incentives for local producers to manage their natural resource base themselves. Recognizing the considerable potential of tourism and non-traditional agricultural and forestry products, this activity will build market-based incentives for improved natural resource management.

¶59. Expected Results:

- Improve visitor infrastructure at 10 target sites.
- Reduce environmental infractions by the tourism sector.
- Reduce resource degradation by six communities within and near protected areas.
- Increased trade of sustainably produced environmental goods and services.
- Increase the level of sustainable financing available for resource management.
- Increase the level of sustainable financing made available for resource management through "payment for environmental services."

¶60. Specific activities:

- Improvement of tourism infrastructure. Visitor infrastructure, such as trails, observation towers, and information centers, will be improved at target sites

identified by Tourism and Environment Ministries. Guides, and other service providers, such as hotel staff, and transportation providers, will be trained in best practices.

-- Increased options for sustainable income generation. Many rural residents have few income generation options, a pattern that encourages adoption of environmentally destructive agricultural practices. USAID will build on nearly two decades of experience in identifying and promoting alternative livelihoods for communities near protected areas. Community members will be provided specialized technical assistance and vocational training. Where possible, assistance will be provided in establishing market access for natural products from communities living near protected areas.

-- Helping governments remove barriers that keep funds from reaching protected areas. The activity will address policy constraints that prevent funds from getting to where they are needed for improved management. It will also address capacity limitations that prevent local residents from identifying, producing and trading in environmental goods and services. Policy changes will be promoted that encourage local generation and retention of fees for management.

-- Promoting "Payment for Environmental Services" as a concept for improved management will be promoted with local and national governments, building on the existing foundation of USAID sites in Costa Rica, Honduras, Nicaragua and Guatemala. Payments for Environmental Services will be implemented at selected target sites. Environmental payment service systems will be reviewed by experts, and their findings will be discussed at public meetings. Findings of evaluations will be provided to NGOs, the general public, as well as national and local government.

161. U.S. POLICY OBJECTIVES: This activity directly addresses priorities established by the signatories of DR-CAFTA-DR in the ECA work plan that highlights the need for sustainable financing for natural resource management. Specifically, it addresses ECA work plan sections that include:

-- Improve visitor infrastructure and services to increase tourism while better protecting the resources.

-- Promote alternative livelihoods based on sustainable resource use for communities within and near protected areas.

-- Promote activities directed towards strengthening the capacity of the Region to identify, produce and trade in environmental goods and services.

-- Promote and implement market schemes for environmental services.

-- Validate and promote at a regional level the use of evaluation methodologies for environmental payment services systems.

162. NEW/PREVIOUS WORK: USAID has a long history of work on tourism, payments for environmental services, and certification of environmental goods throughout the region. USAID has historically worked in close collaboration with the Central American Governments through CCAD. Some examples of the USAID experience include the development of a tri-national ecotourism route in the Gulf of Honduras and the development of public use plans for protected areas. In the agriculture sector, USAID support for sustainably produced gourmet coffee led to the sale of 6.6 million pounds of certified organic coffee and over 237,000 tons of certified environmentally friendly bananas. In addition, over 60,000 cubic meters of certified timber products were sold. In this proposed activity, USAID will build upon this strong foundation and continue to work on these issues

through local organizations. Activities planned here complement the World Bank efforts on payments for environmental services and the Interamerican Development Bank work on tourism.

¶63. ESTIMATED COST: USAID requests \$1.8 million in FY 2006

DA Biodiversity funds to fund the first year of this activity. For FY 2007, an additional \$1.6 million request will be made. Matching funds will be provided from national governments and other donors working with CCAD. This activity will also leverage a 25 percent from international conservation that have an extensive network of local partners in the region.

¶64. LOCAL BUY-IN: Proposals were shared with CCAD as the representative agency for all the Ministers of Environment for the CAFTA-DR countries. This proposal is endorsed by CCAD.

¶65. PUBLIC DIPLOMACY STRATEGY: The activities described here represent some of the most visible and valued USG investments in the region. By directly working with communities around protected areas, USAID is able to positively influence the livelihoods of tens of thousands of individuals and demonstrate that free-trade agreements, environmental progress and income growth for the poor are not incompatible. In the past, the public diplomacy opportunities of such programs have proven to be enormous.

¶66. Comment. Post appreciates the opportunity to provide input into environment and labor TCB programs. Regional buy-in to the process is of vital importance, and we believe the programs outlined will encourage the maximum benefit and compliance with the CAFTA-DR agreement. We understand that the interagency group is working to obligate the funding for FY 2006 as equitably and as rapidly as possible. Post hopes that future project requests will provide as much time as possible to work with the CAFTA-DR governments, business and NGO communities to develop these project ideas. We also wish to ensure that projects have the ability to access follow-on funding in future years to make sure that commitments negotiated within CAFTA-DR are complied with. Overall compliance with the letter and the spirit of the FTA are our goals, and some projects will require a several year commitment to see them through to their conclusion. We look forward to the backing of the interagency group for these programs. End Comment.

Barclay